



DATE: September 4, 2009

TO: RANDY BRUEGMAN, Fire Chief  
Fire Department

THROUGH: RENENA SMITH, Budget Director  
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor  
Budget and Management Studies Division - Internal Audit

SUBJECT: FOLLOWUP REVIEW – FIRE DEPARTMENT CASH AND ACCOUNTS  
RECEIVABLE AUDIT

Attached is the Final Follow-Up Audit Report with the current implementation status of the 8 audit recommendations made in the Fire Department Cash and Accounts Receivable Audit Report issued October 31, 2008. This Follow-Up Audit was performed in accordance with AO 1-12 and Government Auditing Standards.

Internal Audit has determined the following current status of the 8 audit recommendations:

7 Audit Recommendations Fully Implemented  
1 Audit Recommendation Partially Implemented

Thank you for your assistance during the course of this follow-up audit. If you have any questions, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachment

cc: Ashley Swearengin, Mayor  
Council Members  
Andrew T. Souza, City Manager  
Bruce Rudd, Assistant City Manager  
James Sanchez, City Attorney  
Cheryl Carlson, MA III, Fire Department  
Karen Bradley, Interim Finance Director/City Controller, Finance Department  
Pedro Rivera, Senior Budget Analyst, Budget and Management Studies Division



## **FINAL FOLLOW-UP AUDIT REPORT**

### **FIRE DEPARTMENT CASH AND ACCOUNTS RECEIVABLE AUDIT**

**Performed by:**  
**Bob Koury, Principal Internal Auditor**  
**Budget and Management Studies Division – Internal Audit**

**Issued on September 4, 2009**

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## **AUDIT RESULTS AND RECOMMENDATIONS**

### **Finding 1 – Lack of a Policies and Procedures Manual(s)**

Detailed Policies and Procedures (P/P) is an element of internal control that documents all the duties required to be performed by department employees. Detailed P/Ps also allows other staff to step in and perform the duties if necessary.

These procedures should include explanations of why tasks are performed, task relationships between one another, and an overview of important information needed to perform these tasks, including deadlines and examples. Procedures should also include who monitors and provides oversight of the entire process. Documented procedures provide the necessary accountability and a means for a smooth transition when a key employee(s) retires (the current employee who has been performing A/R duties for approximately ten years is retiring) or new employees are hired.

#### **Audit Finding:**

1. A formalized (written) Policies and Procedures Manual for the Cash Receipts and Accounts Receivable operations and responsibilities has not been developed and implemented. Informal Desk Reference Manuals developed by individual employees are currently utilized.

#### **Audit Recommendation:**

1. FFD Management should immediately develop and implement formalized (written) Policies and Procedures for all Cash Receipts and Accounts Receivable functions (including date/time stamping all materials received) and responsibilities to ensure transactions are properly processed and furnish a reference source for current and future personnel.

### **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 1**

1. **FFD Management will prepare a formal Policies and Procedures Manual for Cash Receipts and Accounts Receivable operations and responsibilities as recommended. The information contained within the existing desk manuals will be incorporated into a more formal document that will serve as a reference source for current and future personnel. The manual will be finalized by November 30, 2008.**

### **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATION 1**

**This has been completed. Attached are samples from the formal policy and procedures reference document prepared as a result of the audit recommendation. Implemented**

## **Finding 2 – Cash Receipts Duties Not Adequately Segregated**

One employee is currently responsible to mail invoices, open the mail, record the payments, and prepare the deposit. The risk of undetected errors is high when no other personnel have any significant involvement in the process. Segregation of duties provides assurance that assets and records have been safeguarded and financial records are complete and reliable. Although the small size of the staff limits the extent of separation of duties, Internal Audit believes steps should be taken to separate incompatible duties as much as possible. When the same person performs multiple cash handling duties, it can compromise and weaken controls over cash, and employees are in jeopardy of being held responsible for events over which they may or may not have control. With separation of duties, both the custodian and the City are protected.

### **Audit Finding:**

2. The FFD's cash receipts duties and responsibilities are not adequately segregated so that one person does not perform the entire cash receipts and depositing process or is not responsible for multiple duties that are incompatible.

### **Audit Recommendation:**

2. FFD Management should review and revise job duties to ensure adequate segregation of duties over receipting, recording and depositing of funds to strengthen internal controls and minimize the risk of misappropriation or other irregularities.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 2**

2. The department will be expanding the duties of the administrative clerk responsible for opening/distributing the mail to include date stamping of all materials received (checks and stubs) and preparation of a check log. FFD Management will then incorporate an additional level of review/reconciliation of the check log to the ER report of cash receipt payments posted and the PeopleSoft (PS) deposit report by another staff person in an effort to strengthen internal controls within existing staffing levels. These new processes will be documented in the Policies and Procedures Manual.

## **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATION 2**

The department has not been able to fully implement this recommendation. The department is date stamping the checks received however a check log has not yet been initiated. Departmental staff also reviews any checks/items outstanding on no less than on a monthly basis to help insure that research issues continue to be addressed timely. Since the initial response was prepared, the department had to defund two vacant administrative support positions (a senior administrative clerk and a secretary position) in order to help meet the FY 2010 target budget.

**In addition, the temporary staffing which was used to help offset the vacancies has been eliminated as well. As a result, areas formerly staffed with two individuals each are now down to one, yet the workload remains the same. The department will continue to explore ways to incorporate this internal control mechanism into daily assignments under the current staffing configuration. Partially Implemented**

### **Finding 3 – Untimely Deposits of Cash Receipts**

The FFD Finance staff prepares cash/check payments for deposit and delivers the deposit to UB&C usually by 11:00 a.m. on Monday, Wednesday and Friday. UB&C requires all daily deposits to be submitted on or before 1:00 p.m. Monday through Friday. The established City Policy for the deposit of City funds is to prepare the funds for daily deposit and armored car pick-up. Enhanced interest income is realized when receipts are deposited daily versus when deposits are made less timely. Note: The revenue received date has more recently been recorded in the ER System notes fields to monitor deposit timeliness, resolve any payment disputes and for audit trail purposes.

Pre-Inspection Fee – Internal Audit reviewed 17 Cashiers Memos from 14 different deposit dates during the period July 2007 through June 2008. Individual payments were found to have deposit dates ranging from the next day to 15 days from the received date to the deposit date.

5-Year Sprinkler Permit Test Fees – Internal Audit reviewed 68 Permits Forms from 17 different deposit dates during the period April through June 2008. The fee amount matched the MFS but the check number, date and initials of the clerk receiving the fee were not always written on the Permit Form. Individual invoice payments were found to have deposit dates ranging from the same day to 21 days from the date of receipt to the date of deposit. Some payments for deposit were held while errors were being corrected prior to deposit.

Site Inspection Fees – Internal Audit reviewed 256 invoices from four deposits dated January 15, April 3, June 30 and July 3, 2008. These invoices included both Initial and Re-inspection fees. All mail received by the FFD is not date/time stamped. Internal Audit researched the ER System Invoice notes field to obtain the recorded received date for each of the 256 invoices but the ER System invoice notes field did not contain the checks received date for the January 15 and April 3 deposits. Therefore, Internal Audit was unable to determine the timeliness of the January and April deposits. Date stamping checks with the received date and always recording the received date in the ER System would provide documented information regarding customer payments and for audit trail purposes. Revenue received on June 26 was not deposited until June 30 (4 days) and revenue received on June 25 was not deposited until July 3 (8 days). Deposits were not always timely ranging from 4 days to 8 days from the received date to the deposit date.

#### **Audit Finding:**

3. Deposits of cash receipts are not made in a timely manner.

### **Audit Recommendations 3 & 4:**

3. FFD Management should review the work flow processes and staffing level to evaluate the feasibility of depositing receipts within one to two days of receipt to maximum interest income.
4. FFD Management should ensure the revenue received date is always recorded in the ER System notes fields and consider date stamping checks received to ensure documented payment information is available to monitor deposit timeliness, resolve any payment disputes, and for audit trail purposes.

### **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 3 & 4**

3. Under the current process, staff must enter cash receipt information into two different systems (ER, the invoicing system and PeopleSoft (PS) for the deposit), in effect, doubling the amount of data entry required. There is also considerable volume at times with the mail being delivered mid-late afternoon. From the receipt and distribution process, the posting of the checks into the ER system and subsequently into PS usually takes staff past the deposit deadline for that date and into the following day. With thousands of invoices and subsequent checks, those invoices for which the account cannot be easily identified are held from that days deposit for research to determine the appropriate account to be applied to. If they cannot be easily identified, the department routinely calls or sends out letters requesting additional information. Pending the property owner response, this will result in checks being held for the timeframes noted in the findings. FFD Management is assessing the workflow and attempting to identify efficiencies in the process to balance deposit requirements with workload.

As noted, staff is entering the revenue received date in the ER System notes fields to monitor deposit timeliness, resolve any payment disputes and for audit trail purposes. The department will also implement the new procedure for date stamping of all documents and creation of a check log to strengthen internal controls.

### **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATIONS 3 & 4**

Staff has modified prior deposit guidelines and is processing a deposit no less than three times weekly but usually four times a week (Monday through Thursday). Therefore, checks received in the mail Thursday and Friday, will be deposited Monday; checks received in the mail Monday will be deposited Tuesday, etc. There will, however, continue to be times when a check may not be deposited immediately while research is being conducted to identify the account it should be posted to. With this increase in deposit frequency to almost daily, it was found to be redundant to enter the check received date and also deposit date into ER since they are, for

**most transactions, only one day different. In light of the fact that ER is being phased out, and as the check is being date stamped and copies of checks are retained with each deposit, this serves as documentation to monitor deposit timeliness, resolve any payment disputes and for audit purposes. Implemented**

#### **Finding 4 – Lack of an Accounts Receivable Aging Report**

A consolidated Accounts Receivable Aging Report was not in existence for audit purposes or for management monitoring of Accounts Receivable. The lack of a consolidated Accounts Receivable Aging Report prevented;

- Internal Audit from completing a verification of the accounts.
- Inhibits FFD Management's ability to effectively evaluate, monitor and take appropriate actions to enhance collections of such receivables.

Internal Audit requested from and reviewed the following Accounts Receivable data:

- From Fire's Administrative Services staff, information for Site Inspections contained in their ER System and HazMat information contained in their HazMat System; and
- From the City's Finance Department, information for False Alarm Fees and Illegal Fireworks Citations.

Internal Audit gathered the available data and estimated an Accounts Receivable balance of \$360,000 for FY 2008 and \$129,000 for FY 2009 (as of 7/30/08). An estimated 45 percent of the \$360,000 receivables for FY 2008 are 120 days old.

#### **Audit Finding:**

4. The FFD Administrative Staff does not have an Accounts Receivable Aging Report.

#### **Audit Recommendations:**

5. FFD Management should develop and implement an Accounts Receivable Aged Report to assist management in evaluating and monitoring delinquent accounts receivable for enhanced collections.
6. FFD Management should consider meeting with the City Finance Department to discuss the feasibility of collection assistance. If not feasible, then FFD should evaluate the cost/benefit of pursuing an outside collection agency to assist in Accounts Receivable collection.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATIONS 5 and 6**

5. Currently, invoices for various services are created from at least three different systems; therefore a consolidated aging report is not possible. FFD Management is in the process of attempting to acquire a new records management system and invoicing/accounts receivable program that will interface to PS to reduce the need for duplicate entry and multiple systems.

The ER system currently in use was developed as a fire records management system, and was not designed to process the large volume of inspections/invoicing processes that FFD currently has in place. The department believes that this recommendation, and others noted in this report will be addressed through the implementation of a new system specifically designed for invoicing and accounts receivable. The department is hoping to be able to move forward with these new systems beginning in 2009.

6. FFD currently utilizes the services of Finance for collection of delinquent False Alarm and Fireworks citations, and previously utilized an outside collection agency for certain accounts receivable. The department has also recently enrolled in the California State Franchise Tax Board Tax Intercept Program in an effort to further collection efforts. Delinquent inspection invoices are subject to a citation penalty process and the department is pursuing through the City Attorney's Office placement of liens on properties with any delinquent fees and citations similar to the process utilized by Code Enforcement.

## **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATIONS 5 & 6**

As indicated in the initial response, a new records management system (RMS) was finally purchased in December 2008 and is in the process of implementation. The fire inspection module is targeted for roll-out in September/October. As a part of this transition, FFD information services staff are working closely with Finance and ISD staff on development of an interface to transfer inspection billing detail to the PeopleSoft (PS) accounts receivable module, thus being able to take advantage of all of the accounts receivable, invoicing and aging functionality that is available in that system. Testing is anticipated in September/October with a target to transition over in November/December. In the interim, billing continues through the existing ER system.

The department has also been actively working with Finance staff that provide collection assistance for delinquent inspection and other fee accounts. Where these internal collection efforts have been unsuccessful, the accounts are being referred to RSI, one of the collection agencies under contract with the City. Staff has also met with Code Enforcement regarding their lien process and will be exploring that

**option further should collection efforts as outlined above prove cost prohibitive or not provide sufficient returns. Implemented**

## **OTHER TESTS PERFORMED**

### **Finding 5 – ER System Fee Schedule Not Updated**

Internal Audit matched the ER System Fee Schedule to the MFS (Master Fee Schedule) and identified fees in the ER System Fee Schedule that did not match the MFS.

- The ER System has the Re-Inspection 3&4 fee for Type A,E,H,S 150,001-200,000 square feet as \$185. The MFS lists the fee as \$182.
- The ER System has the Re-Inspection 1 fee for Type R1 100+Units as \$176. The MFS lists the fee as \$178.
- The Type I (hospitals, nursing homes with medical care, prisons and mental facilities) fees in the ER System do not match the MFS by a range of \$21 to \$173.

Internal Audit was unable to determine the number and fiscal impact of site inspection invoices issued with an incorrect fee. Non-compliance with the MFS results in the issuance of site inspection invoices for an amount different than the MFS. An improper fee amount prevents the invoicing and collection of the proper fee. Internal Audit discussed this issue with FFD Management and immediate corrective action was taken to correct the fees in the ER System.

### **Audit Finding:**

5. There is no formal policy and procedure for updating the ER System Fee Schedule with changes in the MFS.

### **Audit Recommendation:**

7. FFD Management should establish and implement a formal policy and procedure to ensure the ER System Fee Schedule is updated with amendments to the MFS.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 7**

7. **FFD Management will incorporate a policy into the formal Policies and Procedures Manual to include verification by two separate individuals that the fee schedule set-up within the invoicing system reconciles to the current approved Master Fee Schedule. In addition, the fee schedule will be re-verified upon any billing code changes and invoices randomly verified as an additional level of verification.**

## **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATION 7**

**This recommendation has been implemented as outlined. Implemented**

### **Finding 6 – Re-inspection Invoices Not Always Issued**

Internal Audit reviewed a sample of 30 Re-inspections performed during the period July 1 through August 15, 2008. The Re-inspections included first, second, and third re-inspects. Internal Audit was unable to locate documentation in the ER System for the issuance of 23 of the invoices for a total of \$2,156 of unbilled receivables or lost revenue. Internal Audit discussed this issue with the Department A/R Clerk and Management Analyst III and was informed the 23 Re-inspection invoices were not issued due to a problem in the ER System. FFD personnel took immediately action to correct the problem.

#### **Audit Finding:**

6. Invoices for Re-inspections performed were not always issued resulting in a loss of revenue.

#### **Audit Recommendation:**

8. FFD Management should establish and implement a procedure for the reconciliation of the Re-inspections performed to the invoices issued to ensure all invoices were issued.

## **MANAGEMENT'S ORIGINAL RESPONSE TO RECOMMENDATION 8**

8. This system error occurred when a new billing code was implemented to separately identify North Central Fire Protection District invoices from FFD invoices. Upon discovery, the department immediately took corrective action as noted.

FFD Management is in the process of attempting to acquire a new records management system and in conjunction, a complete invoicing and accounts receivable program that will work with PS to reduce the need for duplicate entry. The ER system currently in use was developed as a fire records management system, and was not designed to process the volumes of inspections/invoicing processes that FFD currently has in place. The department believes that this recommendation, and others noted in this report will be addressed through the implementation of a new invoicing system. The department is hopeful to be able to move forward with these new systems beginning in 2009. In the meantime, however, the department will attempt to develop a process to reconcile re-inspections performed to invoices issued.

## **FOLLOWUP RESPONSE AND CURRENT STATUS OF RECOMMENDATION 8**

As indicated in the initial response, a new records management system (RMS) was purchased in December 2008 and is in the process of implementation. The fire inspection module is targeted for roll-out in September/October. As a part of this transition, FFD information services staff are working closely with Finance and ISD staff on development of an interface to transfer inspection billing detail to the PeopleSoft (PS) accounts receivable module, thus being able to take advantage of all of the functionality that is available in that system. Inspections and the resulting invoices for FFD, Fig Garden Fire Protection District and the NCFPD are being separately designated within the interface process. Testing is anticipated in September/October with a target to transition over in November/December. In the interim, billing continues through the existing ER system.

With the additional workload that implementation of a major software program entails and as no further changes in billing codes were made in ER after those identified during the audit, the department deferred attempting to reconcile re-inspections to invoices to focus on implementation tasks. Implemented